

Canada. Banking and Commerce Bill  
... Cttee of (Senate), 1952  
1952

# THE SENATE OF CANADA



## PROCEEDINGS

OF THE

## STANDING COMMITTEE ON BANKING AND COMMERCE

To whom was referred the Bill (205 from the House of Commons),  
intituled: "An Act to amend The Income Tax Act".

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The Honourable SALTER A. HAYDEN, Chairman

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TUESDAY, JUNE 10, 1952

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### WITNESSES:

The Honourable D. C. Abbott, P.C., Minister of Finance.

Mr. Charles Gavsie, Assistant Deputy Minister, Department of National Revenue.

Dr. A. K. Eaton, Assistant Deputy Minister, Department of Finance.

## ORDER OF REFERENCE

Extract from the Minutes of Proceedings of the Senate for Thursday, 5th June, 1952.

"Pursuant to the Order of the Day, the Senate resumed the adjourned debate on the motion for the second reading of the Bill (205), intituled: "An Act to amend The Income Tax Act".

After debate and—

The question being put on the motion for the second reading of the Bill,

It was resolved in the affirmative.

The Bill was then read a second time, and—

Referred to the Standing Committee on Banking and Commerce."

L. C. MOYER,  
*Clerk of the Senate.*

## STANDING COMMITTEE ON BANKING AND COMMERCE

The Honourable Salter A. Hayden, Chairman. The Honourable Senators Aseltine, Baird, Beaubien, Bouffard, Buchanan, Burchill, Campbell, Crerar, Daigle, David, Davies, Dessureault, Emmerson, Euler, Fallis, Farris, Fogo, Gershaw, Gouin, \*Haig, Hardy, Hawkins, Hayden, Horner, Howard, Howden, Hugessen, King, Kinley, Lambert, MacKinnon, MacLennan, Marcotte, McDonald, McGuire, McIntyre, McKeen, McLean, Nicol, Paterson, Pirie, Pratt, Quinn, Raymond, \*Robertson, Roebuck, Taylor, Vaillancourt, Vien, Wilson and Wood.

\* Ex officio member.

TUESDAY, June 10, 1952.

The Standing Committee on Banking and Commerce to whom was referred the Bill (205, from the House of Commons), intituled: "An Act to amend The Income Tax Act", beg leave to report, as follows:—

Your Committee recommend that they be authorized to print 500 copies in English and 200 copies in French of its proceedings on the said Bill, and that Rule 100 be suspended in relation to the said printing.

All which is respectfully submitted.

SALTER A. HAYDEN,  
*Chairman.*

## MINUTES OF PROCEEDINGS

TUESDAY, June 10, 1952.

Pursuant to adjournment and notice the Standing Committee on Banking and Commerce met this day at 4 p.m.

*Present:* The Honourable Senators:—Hayden, Chairman; Aseltine, Baird, Burchill, Crerar, Dessureault, Emmerson, Euler, Fogo, Gershaw, Haig, Hardy, Howard, Howden, King, Lambert, McGuire, McIntyre, Robertson, Roebuck, Taylor and Vaillancourt—22.

*In attendance:*

Mr. John F. MacNeill, Q.C., Law Clerk and Parliamentary Counsel.

The official reporters of the Senate.

Bill 205, intituled: "An Act to amend The Income Tax Act" was read and considered, clause by clause.

Mr. Charles Gavsie, Assistant Deputy Minister, Taxation Division, Department of National Revenue, and Dr. A. K. Eaton, Assistant Deputy Minister, Department of Finance, were heard in explanation of the Bill.

At 6 p.m. the Committee adjourned.

At 8.30 p.m. the Committee resumed.

*Present:* The Honourable Senators:—Hayden, Chairman; Aseltine, Burchill, Davies, Dessureault, Euler, Fallis, Farris, Fogo, Gershaw, Haig, Hardy, Hayden, King, Lambert, McDonald, McGuire, McIntyre and Taylor—18.

The consideration of Bill 205 was resumed.

The Honourable D. C. Abbott, P.C., Minister of Finance, was heard in further explanation of the Bill.

The Honourable Senator Haig moved: "That the Bill do lie on the table".

The question having been put on the said motion it was declared passed in the negative.

It was Resolved to report the Bill without any amendment.

Attest.

JAMES D. MacDONALD,  
*Clerk of the Committee.*



# MINUTES OF EVIDENCE

THE SENATE,

OTTAWA, Tuesday, June 10, 1952.

The Standing Committee on Banking and Commerce, to whom was referred Bill 205, an Act to amend the Income Tax Act, met this day at 5 p.m.

Hon. Mr. HAYDEN in the Chair.

The CHAIRMAN: Gentlemen, in accordance with the practice of other years we are having a verbatim report made of our proceedings. Senator Roebuck has a motion in connection with the printing.

Hon. Mr. ROEBUCK: I move:

That the Standing Committee on Banking and Commerce be authorized to print 500 copies in English and 200 copies in French of its proceedings on Bill 205 from the House of Commons, entitled an Act to amend the Income Tax Act, and that Rule 100 be suspended in relation to the said printing.

The motion was seconded and carried.

The CHAIRMAN: We have with us this afternoon Dr. A. K. Eaton, an Assistant Deputy Minister of the Department of Finance, and Mr. Charles Gavsie, Deputy Minister (Taxation), Department of National Revenue. Shall we deal with the bill section by section?

Hon. Mr. HAIG: Carried.

The CHAIRMAN: Perhaps we had better leave it to Dr. Eaton and Mr. Gavsie as to who will make the explanations, as we go along.

On section 1—Loan to shareholder:

The CHAIRMAN: This section is in some respects relieving. Is any explanation wanted for purposes of the record?

Mr. GAVSIE: I think that the explanation given by Senator Hayden is as good a one as we could give.

Hon. Mr. HAIG: We are all satisfied with section 1.

Hon. Mr. McDONALD: We had a thorough explanation of it by Senator Hayden.

The section was agreed to.

On section 2—Statutory exemptions:

The CHAIRMAN: This deals with exemption of the income of the Governor General. I do not think we need to spend any time on this.

The section was agreed to.

On section 3—idem:

Hon. Mr. HAIG: I have a question to ask on this. Suppose you have a retiring employee who has been in your service for a good many years and has now reached the age of, say, 60 or 65, and you give him or her a pension of perhaps \$50 or \$75 a month, would that be allowed?

Mr. GAVSIE: If the practice of the employer is to make payments to employees on retirement in consideration of long and faithful service, and if the amounts paid are reasonable, they will be allowed when paid. If, however, the case is an exceptional one we would have to look at the particular circumstances. In other words, if the person to whom the amount was paid was one



of the senior officials or one of the part owners of the business, we would look at it differently from the way in which we would look at a payment to, say, a stenographer.

Hon. Mr. HAIG: An inquiry was put to me by a firm who have a retiring employee who has been in their service for about forty-five years, and they want to give her a superannuation of \$125 a month. Would that item be deductible or not?

Mr. GAVSIE: I think it would be.

Hon. Mr. HAIG: That is what I was informed in Winnipeg, but I wanted to be sure. Section 3 of the bill has nothing to do with a case of that kind?

Mr. GAVSIE: No. This has to do with a plan whereby all the people retiring in a particular year would be covered.

The CHAIRMAN: And the payments under this would be made only on retirement.

Hon. Mr. HAIG: This is one that has been approved?

The CHAIRMAN: Yes.

Hon. Mr. FOGO: Where is the statutory authority for deduction in the case suggested by Senator Haig?

Mr. GAVSIE: I think it would be in the form of deferred remuneration.

Hon. Mr. HAIG: Yes.

Mr. GAVSIE: That is why we would have to look at the case, to see whether the person receiving the money had an interest in the firm or not, because if he did it would really not be an arm's length transaction. As I said, we would look at it differently if the payment were made to a stenographer or person in that class.

The CHAIRMAN: To an employee as against a part owner?

Mr. GAVSIE: Yes.

Hon. Mr. ISNOR: Mr. Chairman, I am not a member of the committee, but I should like to ask a question. You may remember that the same point raised by Senator Haig was raised by me when you were sponsoring the bill. I had in mind a person such as Senator Haig mentioned, who had given long and loyal service, and whom you might consider to be entitled to a pension or retiring allowance, paid in a lump sum or in payments over a period of years. Would an allowance of this kind be deductible?

Mr. GAVSIE: Are you talking of a special case, or of a practice by the employer to deal with employees of the same type in the same way?

Hon. Mr. ISNOR: I am talking of a special case.

Mr. GAVSIE: In that event we would have to take a look at it, and if the payment were made to a person who was purely an employee I do not see any reason why we would not allow it as deferred remuneration. If it is the practice of an employer to make payments to all employees that retire in that way, then there is an established practice under which everybody is being treated in the same way, but if a particular employee is singled out for special treatment we have to take a look at it to see what the actual situation is.

Hon. Mr. ISNOR: My second question has to do with a somewhat similar case where there has been a long period of service, but where the payment is being made on a different ground from that in the other case. In this second case you might consider the person as a liability for future business, and say that you do not wish to let him out of your employ without doing something for him. Perhaps you feel it would be right to make a contribution of four or five or six or ten thousand dollars, with a view to increasing business in the future by disposing of this person.

Mr. GAVSIE: I am afraid you are getting into the realm of a capital expenditure. The theory behind allowing the expense would be that it was deferred remuneration. If you were buying off a potential competitor that might very well be regarded as a capital expense.

Hon. Mr. ISNOR: But it is not a case of buying off a competitor or anything like that; it is a case of increasing your possibilities of doing a larger business and perhaps getting in to a higher bracket.

Hon. Mr. EULER: Getting rid of a liability, or getting rid of a business that injures your business.

Mr. GAVSIE: If you were buying a right or setting up a possibility of increasing your business in the future, that might very well be a capital item.

Hon. Mr. ROEBUCK: Why don't you marry the girl, and be done with it?

Some Hon. SENATORS: Oh, oh.

Hon. Mr. HAIG: I have one other question. The North American Life Insurance Company has brought in a new scheme in Manitoba whereby it offers an insurance plan to the law firms of that province, in cases where the firm has six or more participants. The partners pay the regular fee, and the staff pays half, with the firm contributing the balance. It is a health policy and superannuation combined. I presume that the amount paid by the employer is a deductible expense.

Mr. GAVSIE: Yes, if it is part of the terms of employment.

Hon. Mr. HAIG: It is part of the terms of employment.

Mr. GAVSIE: The amount paid by the employer would be allowed as an expense, but the amount paid by the employee would not necessarily be deductible, unless under an approved superannuation plan.

Hon. Mr. HAIG: I understand that approval had been given, but I was just checking on it.

Mr. GAVSIE: As a matter of fact, if you look at section 5 of the Act, you will see that employees are not taxable on the benefits they get year by year, by the employer's payment to the scheme.

Hon. Mr. HAIG: That is all I want to know, thank you.

The section was agreed to.

On section 4—Chief source of income.

The CHAIRMAN: This is certainly a relieving section, one that I should think we would want to hurry through.

Hon. Mr. HAIG: Yes.

The CHAIRMAN: Is there any further explanation necessary?

Hon. Mr. HAIG: We know what it means.

The section was agreed to.

On section 5—Inadequate considerations.

Mr. GAVSIE: I think Senator Hayden's explanation on that section is about as full as it need be.

The CHAIRMAN: Any questions on section 5?

The section was agreed to.

On section 6—New property deemed substituted.

The CHAIRMAN: Section 6 is a fully technical amendment for the purpose of clarification, as I indicated when I explained the bill. This deals with cases where there are properties or property substituted therefor; it does not stop with the first substitute, but covers any series of property substitutes.

The section was agreed to.

On section 7—Medical expenses.

Hon. Mr. HAIG: I do not think it would do us any good to discuss this section.

Hon. Mr. ASELTIME: Why not cut out the 4 per cent?

Hon. Mr. ROEBUCK: We might as well pass it as waste time discussing it.

The CHAIRMAN: It is relieving, but it does not go as far as we think it should.

The section was agreed to.

On section 8—Dividends not deductible.

Hon. Mr. EULER: Does this apply to foreign corporations?

Mr. GAVSIE: The first subsection is a relieving provision to exclude from taxable income dividends from a foreign business corporation more than 25 per cent of the issued share capital of which belongs to the receiving corporation.

Concerning subsection 2, I think the senators will recall that an amendment was put through last year dealing with this particular section 27 (1A). At that time there was some objection to it, and we promised that we would work on it during the year and bring in an amendment. This is it, and it is rather complicated because it applies to a very special situation.

The section was agreed to.

The CHAIRMAN: I wonder if the committee would bear with me for a moment if we went back to subsection 7 of section 5 on page 4. One of the senators who is not in good health has corresponded with me about section 5. I spoke casually to Mr. Abbott when he was here; and as the section in relieving in any event, he would not have the same apathy, as a matter of general statement, making a relieving section retroactive as to making a taxing section retroactive.

The point is that subsection 7 deals with the situation where a subsidiary company might be selling to the parent company some of its property on which depreciation has been taken for several years. If it were not for the operation of this relieving section, the transfer of the property at cost would mean that the parent company would be deemed to have received the fair market value. But this is a relieving section which permits in a case of where parties are not dealing at arms length—such as between a subsidiary and a parent company—the transfer of property from a subsidiary to the parent company at book value then existing in the subsidiary company. The only point is that the limit on it applies to the year 1952 and subsequent years.

Senator Campbell wrote to me with regard to whether this provision would apply to shipping companies, where a ship was transferred from a subsidiary to a parent company in the year 1951. In that case it would not get the benefit of this relief. If the relief is thought to be necessary and fair why should it not go back to the earliest period in which it would apply, namely 1950 and 1951? Why should it not include 1950 and 1951, and subsequent years?

Mr. GAVSIE: I do not know of any case where we have had difficulty. We have managed to deal with each case, as far as I know.

On section 9—Rates.

Hon. Mr. McDONALD: We can't do anything with that.

The CHAIRMAN: No, we cannot. These are the effective rates on individuals, and combine both defence surtax and existing rates.

Mr. GAVSIE: There is one comment I might make with reference to the explanation. There was a comment, I believe by Senator Euler, on investment



income. Investment income is subject to 4 per cent tax. When adding the 20 per cent defence surtax you total the tax on all income and the tax on investment income, and then apply the 20 per cent defence surtax to that. Under the proposed change you will have integrated rates for the income and 4 per cent tax on investment income, separate. That is the situation as it will apply in 1952.

Hon. Mr. HAIG: That is better.

The CHAIRMAN: It will be noted that on page 8, part of section 9, there is another schedule which contain rates which are a little higher than the earlier rates. These are the rates which will apply particularly to 1952, because the reduction which the Minister announced is only in relation to the last six months of 1952.

Hon. Mr. HAIG: We can't change that, so we may as well pass it.

The CHAIRMAN: But that is the reason for the two sets of rates.

The section was agreed to.

On section 10—Section repealed.

The section was agreed to.

On section 11—

The CHAIRMAN: This is purely a technical section. Would you like to hear Mr. Gavsie's explanation of it?

Mr. GAVSIE: The purpose of this section is to clear up the reference to "taxation year". It deals with the 10 per cent dividend tax credit. An individual may get the credit if he receives dividends from a taxable corporation; and the purpose of the section is to make clear that it was the corporation's tax year, during which it was taxable.

The section was agreed to.

On section 12—Related corporations.

The CHAIRMAN: This section provides for the corporate rate for the year 1952 and succeeding years. Subsection 2 deals with related company rates, and subsection 3 deals with the apportionment, where the fiscal year differs from the calendar year.

Hon. Mr. HAIG: You cannot change it, anyway.

The CHAIRMAN: Any questions? Carried.

Section agreed to.

On section 13—Deductions from corporation tax:

The CHAIRMAN: It is relieving; it deals with the 5 per cent tax credit in relation to non-agreeing provinces.

Hon. Mr. HAIG: That affects Ontario and Quebec.

The CHAIRMAN: At the present time you pay 7 per cent and you get 5 per cent here only in relation to the portion of the earnings that are attributable to operations in non-agreeing provinces. Is not that right?

Mr. GAVSIE: That is right. The 5 per cent in the agreeing provinces is now incorporated in the rates for corporations.

The CHAIRMAN: Shall section carry? There is no other question there, Mr. Gavsie?

Mr. GAVSIE: No, it just covers that.

Section agreed to.

On section 14:

The CHAIRMAN: Section 14 is clarifying the tax credits that you can take in respect of income received from foreign sources and the extent to which you may take a credit in relation to the tax paid on that income in the foreign country.

Hon. Mr. HAIG: Carried!

Hon. Mr. McDONALD: I would like to ask a question, although I do not think it comes in here. What I have in mind is the position of Royal Bank stock dividends payable to non-residents. Could these not be deducted at the source, at the head office in Montreal, rather than be passed on to people who are acting as secretaries or administrators?

Mr. GAVSIE: Except that the payment made by the Royal Bank is made to the Canadian resident, and the law obliges a Canadian resident who makes payment to a non-resident to withhold the tax. If that dividend were going direct from the Royal Bank to the non-resident, then the Royal Bank would be under the obligation to make the deduction.

Hon. Mr. McDONALD: I see. Thank you very much.

The CHAIRMAN: Any other questions on section 14, Mr. Gavsie? Subsection (3) deals with a different point, does it not?

Mr. GAVSIE: Well, it is consequential upon the 5 per cent provincial tax credit.

The CHAIRMAN: Section 14 is carried.

Section agreed to.

On section 15—Election, etc.:

The CHAIRMAN: Section 15 is certainly a relieving section. This is in connection with the new method of taking depreciation on the diminishing balance and the recapture when you sell. It enables you to spread out individually and corporation-wise the recapture over a period of five years, instead of having it all come in as income in the year you receive it, so it is certainly relieving; and subsection (3) was formerly dealing with the years up to 1954, before you get your five-year period starting to run. Any questions that any senator wants to ask under this section?

Hon. Mr. HAIG: That is helpful.

The CHAIRMAN: You will never be in as good a position to ask questions as you are at the present time.

Hon. Mr. FOGO: Does the taxpayer have the option of distributing it, or otherwise?

Mr. GAVSIE: I do not think he would take the option of paying a higher tax than he otherwise would.

The CHAIRMAN: Could he take more than one-fifth in a year?

Mr. GAVSIE: The taxpayer may elect to pay. He has the election.

Hon. Mr. FOGO: He may take it in a year, or three years, or five years.

Mr. GAVSIE: No; he would either elect to take it in the year in which he made the recovery, or follow the procedure set out in this section—one or the other. I should say, perhaps, unless he elected to use this method he would bring it in the year in which he made the recovery. He has to elect to come under this section, if he so wishes.

Mr. FOGO: That is an answer to my question. That is what I really wanted to know.

Section agreed to.

On section 16—Paragraph repealed: Application:

The CHAIRMAN: Section 16 goes back to section 2, where we were dealing with the income from the Office of Governor General, and it repeals the provision in the present law which exempts the income of the Governor General.

Hon. Mr. HAIG: Carried.

Section agreed to.

On section 17—Where property owned for non-resident persons:

The CHAIRMAN: Any questions? Section 17 deals with trusts. I explained it once, so I should not have to explain it again. Mr. Gavsie will tell you, this time.

Mr. GAVSIE: Well, under the act, a trustee is taxable on all the income he receives except the income that is payable out to beneficiaries during the year. The purpose of this section is to deal with dividends or interest coming from a non-resident-owned investment company to a trustee. The effect of this section would be to allow the trustee to accumulate the interest and dividends that he receives from a non-resident-owned investment company, without being subject to tax.

The CHAIRMAN: It is the only accumulation, I understand, that a trustee could make in relation to his trust in respect of income without being subject to tax: is that right?

Mr. GAVSIE: Yes.

Hon. Mr. LAMBERT: It covers trust companies, I suppose.

Mr. GAVSIE: Yes. Usually the trust companies act as trustees.

Section agreed to.

On section 18—Armed forces regulations:

The CHAIRMAN: This is a new—I hesitate to call it “code”—a new principle for dealing with pay and the liability to tax of those in the armed services.

Hon. Mr. HAIG: Pass: leave it alone.

The CHAIRMAN: It certainly should provide for an easier method in the administration than the one we had last year.

Mr. GAVSIE: Yes, we hope it will. The problem is to get a system that will be workable in an emergency when you have a large number in the armed forces who are scattered throughout the world and being shifted around.

Section agreed to.

On section 19—If personal corporation's chief source of income neither farming nor combination of, etc.:

The CHAIRMAN: This deals with a personal corporation and provides that a gentleman farmer cannot have his personal corporation cease to be such just because he engages in farming as a hobby. That is really the effect.

Mr. GAVSIE: That is the effect.

Hon. Mr. HAIG: It does not affect anybody around this table.

Hon. Mr. McDONALD: It has application to the case of a person taking surplus money and putting it into a farm.

Mr. GAVSIE: A person may put all his investments in a personal corporation and avoid the income being deemed to be distributed by reason of the provisions dealing with personal corporations, by saying that he is in an active business, and the only active business that the corporation has would be this hobby farm; and the purpose of this section is to say that merely because you put a hobby farm into a corporation, that does not mean that it is deemed to be an active business.



Hon. Mr. LAMBERT: How would you deal with farm operations?

Mr. GAVSIE: We would deal with that under section 13, and the loss there would be limited to one-half the cash loss or \$5,000.

Hon. Mr. ASELTINE: What about a personal corporation that carries on an ordinary farming business?

Mr. GAVSIE: If it is just a hobby farm it does not escape being a personal corporation, because a hobby farm is not deemed to be an active business for the purpose of section 61 of the Act.

The CHAIRMAN: Shall section 19 carry?

The section was agreed to.

On section 20—No deduction for taxes:

The CHAIRMAN: This is a technical amendment consequent upon the provision for a new tax credit for corporations carrying on business in Ontario and Quebec as provided by clause 13. It comes under the new section 37 which provides for a deduction from the federal tax for 5 per cent of the profits of a corporation allocated to Ontario and Quebec.

Some Hon. SENATORS: Pass.

The section was agreed to.

On section 21.

The CHAIRMAN: This is a clarifying section relating to companies known as foreign business corporations. It spells out what they can do in Canada and not lose their status in Canada as a foreign business corporation. We have a telegram in this connection which has been addressed to the Clerk of the Committee, and I think I should read it. Mr. Gavsie has read it and I shall ask him to make a comment on it afterwards. It reads:

Re Bill 205 tax amendments section twenty-one STOP Instructed make strong representation against STOP Means stoppage fifteen million dollars pulps and paper purchases in Canada of two clients we represent STOP Must be many adversely affected STOP Gains nothing STOP Makes impossible situation to have benefits unless avoid dealing with and in Canada STOP Is discriminatory in favor few large corporations STOP Section ill-considered clients wish us make representations STOP Please bring to attention appropriate committee considering.

DRACHE MATLIN and CO.

Hon. Mr. HAIG: They are located on Portage avenue, Winnipeg.

The CHAIRMAN: Mr. Gavsie, what have you been able to glean from having read this?

Mr. GAVSIE: I just saw that a minute ago, but this foreign business corporation section relieves a resident corporation from the payment of tax in Canada except to the extent of a \$100 filing fee if all its business operations are carried on outside of Canada, and it has no property or assets inside of Canada—

The CHAIRMAN: Except.

Mr. GAVSIE: About three years ago an amendment was put into the Act to provide that the management might be carried on in Canada and it might make some purchases of goods in Canada. What has been happening is that you get a company whose business is purchasing in Canada and selling outside of this country. The purchasing is an integral part of that business, and it was never intended that this foreign business corporation provision should allow that type of a corporation to escape. It was never intended



that the foreign business corporation exemption should be allowed to a type of corporation whose business is purchasing goods in Canada and selling them either in Canada or outside of Canada. As I understand it, this is a company purchasing pulp and paper in Canada and presumably selling it outside of Canada, and it wishes to be treated as a foreign business corporation. In that case the purchasing is a very integral part of that company's business.

The CHAIRMAN: This amendment does not make such an operation any more taxable. It was taxable before this amendment was brought in.

Hon. Mr. HAIG: Carried.

Hon. Mr. FOGO: The case you have illustrated would be that of a person who is buying goods here for resale abroad.

Mr. GAVSIE: Yes. If it is taxable in Canada—I do not know whether it is or not—certainly it should not be exempt by virtue of this section.

Some Hon. SENATORS: Carried.

The section was agreed to.

On section 22—Application of subsection (1).

The CHAIRMAN: This section deals with pensions where a company put in a pension plan some years ago and made some provision for past service benefits, and now they want to increase those benefits because of changing times, and they may make a further contribution.

Hon. Mr. HAIG: That is a good idea.

The CHAIRMAN: Shall it carry?

Some Hon. SENATORS: Carry:

The CHAIRMAN: Of course, the limitations in the original section apply. That is, you have to spread the original deductions over ten years.

The section was agreed to.

On section 23:

The CHAIRMAN: I will ask Mr. Gavsie to deal with this one.

Mr. GAVSIE: Subsection (1) relates to the particular type of case covered by section 97, subsection (3), where you are required to withhold 15 per cent in the case of a redemption of bonds under the circumstances referred to in section 97, subsection (3). The purpose of this amendment is to make it clear that the undistributed income is reduced by amounts that were taxed by virtue of section 97(3) so that in effect they will not be taxed twice.

Hon. Mr. HAIG: Carried.

Hon. Mr. KING: Are you giving a reduction there?

Mr. GAVSIE: The undistributed income which would be subject to tax if it were paid out is deemed to have been reduced by the amount which was subject to a 15 per cent withholding tax under section 97 (3).

The CHAIRMAN: That is subsection (1). What about subsection (2)?

Mr. GAVSIE: This relates to a company which at one time was a personal corporation and is no longer a personal corporation, or vice versa, a company which at one time was an ordinary corporation and which is now a personal corporation. The purpose of this is to determine what dividends are deductible in arriving at its undistributed income. This rule in effect provides that the dividends that were actually paid out and were not in excess of the deemed to be dividends taxed under section 61 will be deducted, and any actual dividends in excess of the amounts that were taxed under section 61 will not be deductible in arriving at the undistributed income.

The CHAIRMAN: It means to the extent that the earnings were taxed during the period that this company was a personal corporation.

Mr. GAVSIE: Yes, as a personal corporation the earnings would be taxed in each year. The company would then be entitled to pay out actual dividends to that amount.

The CHAIRMAN: Yes.

Mr. GAVSIE: Now, these dividends would be deductible in arriving at its undistributed income. There may be circumstances, however, where the personal corporation would pay out dividends in excess of the amounts that were taxed by virtue of section 61, and those dividends are not deductible in arriving at its undistributed income.

The CHAIRMAN: That is, it might pay out something from a capital surplus?

Mr. GAVSIE: Yes.

Hon. Mr. FOGO: That would be out of some surplus accumulated before the company became a personal corporation?

Mr. GAVSIE: No, unless it was out of a capital surplus.

The CHAIRMAN: Shall that new subsection (8) of section 73A of the Act, as set out in subsection (2) of section 23 of the bill carry?

The new subsection (8) of section 73 of the Act was agreed to.

The CHAIRMAN: Subsection 2 of section 23 of the bill also adds a new subsection (9) to section 73A of the Act.

Mr. GAVSIE: It will be recalled that section 13 states that the maximum loss deductible in respect of a hobby farm is the lesser of one half of the farming loss or \$5,000. The purpose of this subsection (9) is to say that in determining the undistributed income of a company the balance of the loss that is not allowable under section 13 shall not be deductible in arriving at undistributed income, except to the extent that that balance may have been carried backwards or forwards under the provisions of section 26 (1) (d).

The CHAIRMAN: Of course, if the overall operation produces losses in each year we are not concerned with undistributed income, are we?

Mr. GAVSIE: The company may have income from other sources.

The CHAIRMAN: Yes, but if not?

Mr. GAVSIE: If not, there would be no question.

Hon. Mr. KING: Income from other sources would be taxed, and if there were losses on the operation—

Mr. GAVSIE: The losses would be offset, if they are normal business losses. Have you reference to a hobby farm, sir?

Hon. Mr. KING: No.

Mr. GAVSIE: By virtue of the amendment to section 13 the losses would be offset against any income for the year, so that the taxpayer would pay on the net income.

Hon. Mr. HOWDEN: How would you arrive at the losses on a hobby farm? I am anxious to know, because I have a farm of my own.

Mr. GAVSIE: It is the cash loss, excluding all expenses of a personal nature or living expenses. If you occupy part of the farm with your family you have to make an appropriate reduction for value of the premises. If you have a gardener who cuts the lawn in front of your house and also works on the farm, you have to make some division between what part of your payment to him is a personal expense and what is a farm expense.

Hon. Mr. BAIRD: I run one of those farms that you term hobby farms. My home is on that farm, and I have expenses for painting and shingling the house, and so on. Are those expenses deductible when computing income?

Mr. GAVSIE: No, sir. Those are personal expenses.

Hon. Mr. BAIRD: But I am a farmer.

Mr. GAVSIE: If you were living in the city you would have the same expenses on your private home. You have to reshingle and paint your house when necessary.

Hon. Mr. BAIRD: In other words, any expenses for the maintenance of a personal home are not allowed?

Mr. GAVSIE: No.

Hon. Mr. ASELTINE: I thought that 25 per cent of the costs of repairs on a farm were deductible.

Mr. GAVSIE: That is on a full-time farm.

Hon. Mr. BURCHILL: What about expenses on actual farm buildings, on the barns and so on?

Mr. GAVSIE: They would be allowed, but not depreciation.

Hon. Mr. BURCHILL: What about costs for shingling?

Mr. GAVSIE: There would be a question whether shingling is a capital expense.

The CHAIRMAN: Just do part of the work each year and call it a repair, and you will be all right.

Hon. Mr. BAIRD: I have not been making any deduction at all for these expenses, because I was afraid they would not be allowed.

Mr. GAVSIE: If you have a cash loss the law entitles you to deduct the lesser of one-half the loss for the year or \$5,000. But in arriving at a cash loss you cannot include personal or living expenses, money spent to provide yourself a home.

The new subsection (9) of section 73A of the Act was agreed to.

The CHAIRMAN: Subsection (2) of section 23 of the bill also adds a new subsection (10) to section 73A of the Act.

Mr. GAVSIE: That is similar to the new subsection (9). It prevents the indirect deduction of a farming loss if the direct reduction is prohibited by the new subsection (9).

The new subsection (10) of section 73A of the Act was agreed to.

The CHAIRMAN: Subsection (2) of section 23 of the bill also adds a new subsection (11) to section 73A of the Act.

Mr. GAVSIE: In the case of a new mine which has a three-year exemption, the income of which mine is not included in computing the corporation's income, this provides that nevertheless that income is included for the purpose of arriving at the undistributed income of the corporation which would be available to be paid out to the shareholders. In other words, the exemption for new mines relates only to the corporation which owns the new mine and does not extend to the shareholders.

Hon. Mr. KING: The shareholders are taxed?

Mr. GAVSIE: The purpose of this amendment is to make it clear that the income of the new mine, which is exempt in so far as the corporation is concerned, is included in determining the company's undistributed income which is available for distribution to the shareholders.

The new subsection (11) of section 75A of the Act was agreed to.

On section 24—Mining Companies:

Mr. GAVSIE: This extends for another year, namely to 1955, the three-year exemption in respect of new mines. There is an exception made in respect of sylvite, which I understand is potash.

The section was agreed to.



On section 25 (new section 74A of the Act)—Application of Part to Crown corporations:

The CHAIRMAN: This is the new section taxing Crown corporations. Is any explanation of that required?

Section 25 (new section 74A of the Act) was agreed to.

On section 25 (new section 75 of the Act)—Electric, gas or steam corporations:

Hon. Mr. HAIG: Mr. Chairman, I suggest that we adjourn now until 8 o'clock this evening.

The CHAIRMAN: Mr. Gavsie tells me he thinks we can finish in about ten minutes.

Hon. Mr. HAIG: Very well, but I doubt it.

Hon. Mr. BURCHILL: This is something that I do not think we can pass over in ten minutes.

Hon. Mr. HAIG: I suggest that we hear the minister on this section.

Hon. Mr. BURCHILL: I should like to know the reasons why telephone companies are exempted from the benefits given by this section to electric, gas and steam corporations. Thousands of people want to know the reasons.

The CHAIRMAN: Mr. Abbott said he would come back if we needed him. I suggest that we stand this part of section 25 of the bill until 8 o'clock.

Hon. Mr. HAIG: I agree with that. We probably could have the minister here tonight, because the House of Commons will be sitting then.

Mr. GAVSIE: I do not think I could say very much about this particular section, because it has to do with a matter of policy which is handled by the Department of Finance.

Hon. Mr. HAIG: But we may wish to ask you some questions.

Section 25 (new section 75 of the Act) stands.

On section 26—Disposal of Appeal.

The CHAIRMAN: This is purely procedural. I think the explanation given the other day was sufficient.

The section was agreed to.

On section 27.

The CHAIRMAN: Would you give us a brief explanation of that section, Mr. Gavsie?

Mr. GAVSIE: The purpose of this is relieving. Under section 95A: a company having paid its 15 per cent tax on its undistributed income at the end of 1949 may elect to pay 15 per cent tax on an amount equivalent to the dividends it paid out in 1950 and subsequent years.

The present section reads in part:

. . . dividends declared and paid by it in the taxation years beginning with the 1950 taxation year.

The purpose of this amendment is to change the words to read "dividends declared by it that were paid by it in etc." In other words dividends may have been declared in 1949, but paid in 1950.

The section was agreed to.

Section 28.

The CHAIRMAN: This amendment merely adds the words which are underlined.



Mr. GAVSIE: It gives the Governor in Council authority to make regulations dealing with a non-resident carrying on business in Canada. It sets out these words: "... what amounts are taxable under this part or what portion of the tax under this Part is payable by that person." This relates to the 15 per cent tax payable by non-residents.

The section was agreed to.

On section 29—Service of garnishee.

The CHAIRMAN: That is a procedural section dealing with who may be served with garnishees.

The section was agreed to.

On section 30—Proof of documents.

The CHAIRMAN: This section is a clarifying section where, for instance, a discharge of a mortgage is given and the department has taken security for income tax payable; it recognizes the authority of the signing officers, if signed under certain circumstances and by certain people. It is relieving to the extent that it overcomes a difficulty that has developed.

The section was agreed to.

Section 31—Exempt income.

The CHAIRMAN: Have you something to say about this section, Mr. Gavsie?

Mr. GAVSIE: The purpose of the section is to bring under the term "exempt income" amounts that would be deductible if it were not for subsection 1A of section 27. That is the subsection that deals with the case of controlled companies, where the "designated surplus" is blocked. The purpose of this section is to include in "exempt income" the "designated surplus" mentioned in that subsection.

The CHAIRMAN: Then there is a definition of "farming".

Mr. GAVSIE: The purpose of that is to include persons who exhibit or maintain horses for racing purposes; the effect is to include them as hobby farmers and to limit the losses which they would otherwise be allowed to deduct.

The CHAIRMAN: Subsection 2 defines "relationships".

Mr. GAVSIE: It defines relationship by blood, marriage and adoption. It narrows what would otherwise be blood relationship. There is an English case which says that as long as some common ancestry can be traced there is blood relationship. The purpose of this section is to limit the relationship to direct descendants, ascendants, brothers and sisters.

The section was agreed to.

On section 32—Application of s. 1 para. (j) of Interpretation Act.

The CHAIRMAN: This is a simple clarification section wherein "one person" is corrected to read "a person".

Mr. GAVSIE: That would permit the plural to be applicable also.

The section was agreed to.

On section 33.

Mr. GAVSIE: That section would extend to 1955 the provisions for exploration and development expenses being written off for oil well ventures. Subsection 2 deals with deep test wells, in which the provision is also extended for another year.

The section was agreed to.

On section 34—Mining or exploring for minerals.

Mr. GAVSIE: Subsection 1 of that section uses the same language in respect of mining as is set up for oil and natural gas purposes. Heretofore, it has been

a question of deducting these expenses in one year, even if it caused the operations to show a loss. The purpose of this amendment is to allow the balance to be carried forward until there is some income to offset the expenses, without any limit as to the number of years.

Hon. Mr. HAIG: That is a relieving section.

Mr. GAUSIE: A relieving section.

Clause 4 (A) on page 22 of the bill is beneficial. Under the provincial corporation tax Acts which existed in the agreeing provinces, provision was made for a tax credit against the provincial tax, for exploration and development expenses. That provincial tax has now disappeared, and there are companies which have unused tax credits. The purpose of this clause is to allow such companies to apply those unused tax credits against the Dominion tax.

The section was agreed to.

Hon. Mr. HAIG: I move that we adjourn until 8.30 in order to give the Minister an opportunity to appear for a short time in the other house when it meets at 8 o'clock.

The Committee adjourned.

The Committee resumed at 8.30 p.m.

On Section 25 (new section 75 of the act):

The CHAIRMAN: Gentlemen, we have delayed at the request of Senator Burchill section 25, which enacts section 75. The minister is here now, and Senator Burchill. Now you have the floor, senator.

Hon. Mr. BURCHILL: I would like to know what you have against the telephone companies: that is all.

Hon. DOUGLAS C. ABBOTT, M.P. (Minister of Finance): That is a fair question, Senator. Quite frankly there is not any logic nor any particular principle in this special discriminatory tax rate, because that is what it is. We are giving a small group of companies a special rate of tax. I did that very reluctantly. I only made up my mind about the last week before the Budget to do it.

First, there was the precedent that the group of companies which were included in this section are the ones for which we refund to the provinces one-half of our income tax receipts. It is the companies engaged more than 50 per cent in the generation of electricity, gas and steam; and under the Federal-Provincial Tax Agreements Act with respect to those companies we pay to the provinces, whether they come into tax agreements with us or not, half of our income tax revenues. Needless to say, half of the concession I give here is coming out of the pockets of the provincial governments, not out of our revenues. There was a precedent for that group.

The second point, I think, was this, that in the case of these companies, particularly the power companies, their rates are fixed by local rate-fixing bodies, provincial bodies chiefly, and it seems to be a little more difficult to convince provincial rate-fixing bodies that federal taxes should be taken into account in establishing rates for public services than it is to convince the federal boards. The telephone companies—virtually all, I think, including your own company—have their rates established by the Board of Transport Commissioners.

Hon. Mr. BURCHILL: No; our own provincial body.

Hon. Mr. ABBOTT: I understood they were. Well, that is an exception. I had to tell the president of the Bell Telephone Company, who came to see me the day after the budget, very much the same thing that I am telling you

now. One has to admit that it is singling out a special small group of companies for a special tax rate, but they are companies which have very substantial capital requirements for expansion, in order to provide service, and to obtain a reasonable proportion of their capital requirements in equity capital they have to show a reasonable earnings position. And certainly in the case of companies which have their rates fixed by federal rate-fixing bodies, federal taxes are recognized as an element of cost which has to be included in establishing the rates. I must confess I look upon the thing as essentially a temporary sort of provision. We had a precedent in the Federal-Provincial Tax Agreement Act, where we are giving back half the revenues. The companies included in this provision are perhaps more exposed to socialization than some others. That has been the historical background.

Hon. Mr. BURCHILL: Last year, you remember, we discussed this matter here.

Hon. Mr. ABBOTT: Yes, I know.

Hon. Mr. BURCHILL: And we asked that the public utilities companies whose rates were regulated and fixed by boards should have some lenient treatment, because it just means—at least in our particular case it just means that we have got to go to the Public Utilities Board and ask them to give us a new rate, and increase our rate in order to take care of this 20 per cent tax; and we have to ask them for double what we want.

Hon. Mr. ABBOTT: Yes. At present, to maintain your income position and pay the tax you have to charge a dollar in order to get 50 cents.

Hon. Mr. BURCHILL: We took you at your word, and you said “We will think about it for another year.” Now we wonder how we can go down to the people in New Brunswick, Nova Scotia and British Columbia and justify the giving of it to certain companies and not giving it to others.

Hon. Mr. ABBOTT: Well, the only reason you can justify it is the reason I have given you. It may not be too good a reason, and that perhaps, is why it should be extended to railway companies, bus companies and lots of others. I personally hate special tax rates for any taxpayer, and as I told you, it was only with the greatest reluctance that I decided to give this special tax treatment to this group, and it was a close thing whether I did it or not. But I came to the conclusion that the only way it could be done would be by singling out a named group of companies for the special rate, and I selected the group on which we were already refunding half of our take to the provincial governments.

Hon. Mr. EULER: May I ask what are the revenues you receive by reason of this discrimination?

Hon. Mr. ABBOTT: I could not tell you offhand, Senator. It does not mean a great deal to these companies, that is in relation to their revenues; but it is something.

Hon. Mr. EULER: I was wondering whether it meant still less in relation to the revenues of the companies discriminated against.

Hon. Mr. ABBOTT: It will be somewhat less, but it will not be a very large item.

Hon. Mr. EULER: It might mean more to them relatively than it does to the government.

Hon. Mr. ABBOTT: That is right. It should enable some of them to show a reasonable earnings position for the purpose of raising equity capital.

Hon. Mr. FARRIS: Is there any principle involved as between the companies to which you give this benefit, and the ones to which you refuse it?

Hon. Mr. ABBOTT: I would not think so, Senator. I think it is indefensible logically. On principle, I think any differentiation in tax is. On practical



grounds, I think, it is justified here, and particularly for certain types of those companies in the East that are working alongside competitors who are socialized.

Hon. Mr. FARRIS: If there is no logic in it, what harm would there be in making it logical?

Hon. Mr. ABBOTT: I think you might as well have revised your rates right across the piece to give everybody the 43 per cent rate—which I cannot afford to do. Perhaps it would have been better to let them “sweat it out”. It is a dog-in-the-manger argument in a sense. I came to the conclusion that on practical grounds this was justified, but I have found it very hard to answer my friend Fred Johnston or Senator Burchill here when they say “Why don’t you give the same thing to the telephone companies?”

Hon. Mr. FARRIS: Supposing we would amend the bill on that ground?

Hon. Mr. ABBOTT: I would not accept it—to be quite frank with you. As a matter of fact—I am not going into the constitutional position on it, but I have been quite frank with you.

The CHAIRMAN: I don’t think we could add. We could strike out.

Hon. Mr. HAIG: We could hold up the whole bill.

Hon. Mr. ABBOTT: That is right. I don’t know whether it would have the effect of holding up the bill. I certainly would not extend the benefit beyond what is in it now.

Hon. Mr. HAIG: We could not do that, but we could just hold up the bill; say “The title has not been passed”.

Hon. Mr. ABBOTT: You could do that.

Hon. Mr. HAIG: I appreciate your arguments, and see your difficulties, but here is what troubles me about an amendment of this kind. In the province of Saskatchewan all the rural phone lines are owned by the people. In the province of Ontario quite a few are owned by the people; one of our senators said, about three hundred. But it has been the same proposition all over, where you had a tax on the privately-owned companies and no tax on the publicly-owned companies. As far as I am concerned this is a direct tax on private enterprise—absolutely. That is what puzzles me. I can understand your argument but honestly I cannot follow the logic of it.

Hon. Mr. ABBOTT: I told you there wasn’t much logic in it.

Some Hon. SENATORS: Oh, oh.

Hon. Mr. ABBOTT: I started off by saying that, didn’t I? I conceded you that point at once.

Hon. Mr. BURCHILL: Mr. Chairman, there is not much sense in talking about this any more. The minister says that he will not extend the same privilege to the telephone companies, and we do not want to hurt his treatment of the other companies, so why not stop talking about it?

Hon. Mr. ABBOTT: I do not want to appear dogmatic, but this thing worried me tremendously. I introduced this measure last year, thinking we could find a formula. We tried our best but we just could not find one, so we dropped it. This year we have been thinking and working on it and the conclusion we have reached is that the only way it could be done would be to single out certain named classes of companies and discriminate in their favour. I took the ones already in the statute where we were kicking back half our income tax to the provincial governments, and we decided that that was as far as we could possibly go. Perhaps it was a mistake to go that far.

Hon. Mr. EULER: How about passing that discrimination around?

Hon. Mr. ABBOTT: Everything is a question of degree. I do not like discrimination in any form. I am quite frank to say I did feel there were grounds



here that justified doing this, but that may have been a mistake in judgment. I do not know.

Hon. Mr. HAIG: I should like to ask a question, not necessarily of the minister. Perhaps Dr. Eaton could answer this. What reduction are you giving to these companies?

Dr. EATON: It amounts to 7 percentage points in the rate, the standard rate being 50 per cent on profits in excess of \$10,000, and the rate on profits from these sources would be 43 per cent.

Hon. Mr. ABBOTT: Plus the 2 per cent for old age security tax. It is from 52 to 45.

Hon. Mr. HAIG: I like the minister personally and I do not want to insult him—

Hon. Mr. ABBOTT: I am a hard man to insult.

Hon. Mr. HAIG: I do not think we are fighting over very much if it is only 5 per cent.

Hon. Mr. ABBOTT: I said in my budget speech that it was not a very significant reduction in taxation.

Hon. Mr. HAIG: If you keep this up you will ultimately drive all these companies into public corporations. You will drive private enterprise out.

Hon. Mr. ABBOTT: That, of course, was the principal reason which prompted us to offer relinquishing half of our revenues from these companies to the provincial government. There are no conditions attached to that. They do not have to make a tax-rental agreement with us or anything. We just hand back half of that revenue from the privately owned companies to the provinces.

Hon. Mr. EULER: Why do you do that?

Hon. Mr. ABBOTT: To ward off socialism, which would mean losing revenue. That was the purpose of our doing that. There was no secret about it. Mr. Ilsley announced that in his 1946 budget speech.

The CHAIRMAN: Do the provinces pass on the benefits to the companies concerned?

Hon. Mr. ABBOTT: I have no way of knowing.

Hon. Mr. HAIG: I am afraid they do not.

The CHAIRMAN: I do not think so.

Hon. Mr. HAIG: I know about one that does not. I sat too long on one of them not to know what goes on.

The CHAIRMAN: So the gift does not go far enough?

Hon. Mr. HAIG: Oh, no.

Hon. Mr. EULER: Since the general objector has more or less thrown up his hands, what is the use of discussing this any longer?

Hon. Mr. BURCHILL: I have thrown up my hands because the minister says he will not extend the treatment, and I do not want to get in the way of these other companies.

Hon. Mr. ABBOTT: Senator Burchill has been very fair about this. We discussed it at great length a short time before the budget.

Hon. Mr. HAIG: I am not satisfied. I am going to move that this bill be put on the table, the object of my motion being to hold it up in committee. I am opposed to the principle of this bill and I am going to fight it here and I am going to fight it on the floor of our house when it comes back to us there. I make this motion with all due respect for the minister. I understand his explanation and I know that it is genuine, but I do not agree with the principle contained in the bill and I am not going to vote for legislation when I do not

agree with its principle. The effect of it will be to endeavour to drive out private enterprise altogether and give us a purely socialistic state, and I do not intend to vote for that.

Hon. Mr. ABBOTT: In so far as it tends to do anything, it tends to minimize the danger of socialism.

Hon. Mr. HAIG: I think not.

Hon. Mr. ABBOTT: It may not go far enough, but it at least reduces the danger of public ownership.

Hon. Mr. HAIG: That is my motion.

Hon. Mr. ABBOTT: Your motion, if it were accepted, would increase the the incentive to socialize these companies.

Hon. Mr. HAIG: Well, it will be on the table and I think the government wants this legislation.

Hon. Mr. ABBOTT: It is not my legislation. I am here to raise moneys for the government.

Hon. Mr. HAIG: It does not affect your money raising.

Hon. Mr. ABBOTT: Yes, it does.

Hon. Mr. HAIG: No, you are cutting down here.

The CHAIRMAN: The effect of tabling this bill would be to continue the rates presently in force, and they are higher than the rates here.

Hon. Mr. HAIG: That may be so.

The CHAIRMAN: You are penalizing all the people in Canada.

Hon. Mr. HAIG: This is the only instrument I have got to use, and I must use the instrument I have.

The CHAIRMAN: As long as the honourable senators understand the effect of tabling the bill is to inflict a higher rate than the government thinks is necessary for raising the revenues for this country this year. Are you ready for the question?

Some Hon. SENATORS: Question.

The CHAIRMAN: Those in favour of Senator Haig's motion to table the bill please raise their hands. Those opposed? I declare the motion lost. Shall I report the bill without amendment?

Some Hon. SENATORS: Carried.

The committee thereupon adjourned.



